

STATE OF WASHINGTON



OFFICE OF
INSURANCE COMMISSIONER

DAIRYLAND INSURANCE COMPANY

MARKET CONDUCT EXAMINATION

OCTOBER 31, 1996- OCTOBER 31, 1997

Seattle Washington

Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the laws of the State of Washington,
a market conduct examination has been made of

Dairyland Insurance Company

1800 North Point Drive

Stevens Point WI, 54481

and this report of examination is respectfully submitted.

This is the second Market Conduct Exam of Dairyland Insurance Company. The prior exam was completed in June 1992. Findings from the prior exam are discussed in the pertinent sections of this report.

This examination was limited to the activities relating to policies issued in the State of Washington, and to claims closed for Washington insureds from October 31, 1996-October 31, 1997. Complaints were reviewed from 1992 through the exam period for trend identification. The examination included a review of the following areas:

- Complaint handling
- Underwriting, including new issue, renewals, non-renewal and cancellation practices
- Claim settlement practices

The on site portion of the examination was performed in Denver, Colorado at the Regional Underwriting branch and in Phoenix, Arizona at the Regional Claims office.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Sally Anne Carpenter and Shirley M. Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

HISTORY, OPERATIONS AND MANAGEMENT

Dairyland Insurance Company is one of the companies in the Sentry Insurance Group. Dairyland Insurance Company was formed on August 1, 1965 under the laws of Wisconsin. It was the successor to Dairyland Mutual Insurance Company, originally organized in 1953. Financial control has been held directly or indirectly by Sentry Insurance, a mutual company since September 1966.

Administration of the Company is under the direction of Thomas M. Lamb, president.

The Company operates in 35 jurisdictions. Dairyland is a speciality carrier, writing non-standard automobile and standard motorcycle insurance in Washington State. The company operates both regional underwriting and claims facilities. Underwriting for Washington is performed in Denver, Colorado. Claims for Washington are handled in Phoenix, Arizona.

In 1996, Washington premium represented 9.4% of Dairyland's premium volume.

COMPLAINTS

The purpose of this section of the examination was to review the Company's complaint handling procedures and compliance to WAC 284-30-360(2) which requires the Company to respond to inquiries from the Insurance Commissioner's office within 15 working days from the receipt of the inquiry. The complaints were also reviewed for possible adverse trends in claim handling or underwriting.

The Company has written complaint handling procedures. A complaint is considered to be any oral or written communication directed to any office in the company that expresses dissatisfaction with a company policy, procedure, practice, claim settlement, communications, image or personnel. Complaints are logged, and a complaint file is created and monitored by the Home Office. Complaints are directed to the appropriate department for response. The company log contained 108 consumer and regulatory complaints for the period examined, 1992-1997. This time frame is used to review complaints for trends.

Twenty-five complaint files were selected for examination.

Subjects of the complaints
examined:

Underwriting	9
Claims	13
Customer Service	3

Outcome of the complaints examined:

	19 resulted in an explanation of the company actions. No corrections were made as a result of these complaints.
Underwriting	3 required corrective action
Claims	1 required corrective action
	1 acknowledged the complaint regarding delays was justified
	1 file is still open and negotiations continue

There were no adverse trends noted in the review of the complaint files.

UNDERWRITING AND RATING

The company processed the following new and renewal business during the time frame of this examination:

Private Passenger Automobile Policies	45,086
Motorcycle Policies	2,492

The examiners reviewed the following:

Private Passenger Automobile Policies	100
Motorcycle Policies	50

Files were reviewed to determine if :

- the company was following their filed rating plans
- the company was utilizing their underwriting rules consistently
- the company was in compliance with other Washington laws

The examiners also manually rated policies to determine if there were any programmed processing errors on the company's computer system and if the company was using their filed and approved rates and rules. There was no indication that the company deviated from their approved rates and rules. No computer processing errors were identified. Three clerical errors were identified and returned for correction.

The following errors were identified:

- Policy number 450846042 was rated utilizing an incorrect automobile symbol, resulting in a higher premium being charged.
- Policy number 600002838 was taken out of the Apreferred@ motorcycle program because of an accident. When it was determined that the insured was not at fault, the company did not return the insured to the lower rated program.
- Policy number 450854400 was rated utilizing an incorrect automobile symbol. When corrected, there was no difference in premium.

All errors were referred to the company to correct and where applicable, return any over charged premium. A total of \$206.03 was returned to insureds.

In the prior exam it was noted that return premium checks were being made payable to the agent. The company was instructed to change this procedure and issue the checks directly to the policyholder. The company has complied with this instruction.

CANCELLATIONS AND NON-RENEWALS

During the time frame of this examination, the company issued a total of 31,258 cancellations.

- 24,363 policies were canceled for nonpayment of premium.
- 6,474 policies were canceled at the request of the insured.
- 421 policies were canceled by the company.

During this same time frame, the company also non-renewed 400 policies.

A total of 200 cancellations and 60 non-renewals were reviewed to determine if the company was issuing notices in compliance with Washington law.

One error was noted in the cancellations. The company canceled policy #WA 450815728 which had been in force for 176 days when the notice was sent. RCW 48.18.291 (2) (a) does not allow a policy to be canceled more than 60 days after inception except when a driver's license has been suspended or revoked, or for nonpayment of premium.

Eighteen errors were identified in the 60 policies that were non-renewed by the company. See Appendix 1 for policy detail.

- 17 policies written through one agency were non-renewed because an agent no longer appointed with Dairyland Insurance Company. RCW 48.17.591 (1) prohibits non-renewing policies for this reason.
- 1 policy was non-renewed because of a claims frequency. The insured's driving history was listed with the non-renewal notice, showing 7 not at fault accidents, 2 comprehensive losses and one speeding ticket. RCW 46.52.130 does not allow the auto policy to be canceled, non-renewed, denied, or have the rate increased on the basis of the driving abstract unless the policyholder was determined to be at fault. RCW 48.18.292 (5) says in part that no insurer shall refuse to renew the liability and/or collision coverage of an automobile policy on the basis of comprehensive claims.

In the prior exam an instruction was given requiring the company to give the true and actual reason for the company's action when canceling or non-renewing a policy. No violations of this nature were identified during this exam.

CLAIMS

Five hundred and thirty-eight claims were selected for review from the general population of 20,029 claims closed during the examination period. An additional 75 claims were selected from the salvage log which identified 1423 claims involving the settlement of total loss vehicles. The company investigates and negotiates most of their claims by phone from the office in Phoenix, Arizona. Severe claims are assigned to resident or independent adjusters. Appraisals are handled through staff and independent appraisers.

The files were examined for compliance with laws regarding fair claims practices, total loss settlement, salvage disposal, and handling of subrogation. During the initial review of total loss files the examiners found that applicable sales tax and license fees were not being paid on any 1st party owner retained total losses. The examination was expanded to identify all owner retained total loss files. The company was instructed to make additional payments on all 91 owner retained total loss automobile files. The additional payments totaled \$29,211.09 to consumers.

Subrogation is handled by the Phoenix office. One subrogation file contained an error in the calculation of the refund of a portion of the insured's deductible. This resulted in an additional payment to the insured of \$119.65. Procedures for refunding deductibles to the insured when money was being collected in partial payments have changed since the beginning of the exam period. Instead of prorating refunds as money is collected, the company recently adopted a policy whereby the insured is reimbursed from the first monies collected prior to insurance company recovery.

The company has a fraud unit in the Phoenix office. Two files with fraud indicators undetected by the company were identified during the examination and returned for possible referral to the fraud unit.

OIC instructions given to the company following the prior exam related to lack of documentation in claim files, investigation delays, and incomplete documentation of total loss evaluations. Specific violations which continue in these areas are identified in this examination.

There was evidence of delayed investigations or settlements because of the following:

- Company standards and time frames for appraisal, review of estimates or total loss evaluations were not met.
- Settlements were delayed due to damage verification process. (e.g. Photos and estimates were requested to establish damages, then after receipt, appraisals were ordered, slowing down the settlement process)
- Total losses evaluated by independent appraisers were re-evaluated by the total loss unit, prior to offering settlements.

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- Components of file investigation such as damage documentation in comparative negligence cases were not being completed until liability investigations were completed.
 - Claim handlers did not take the initiative to follow up with underwriting to resolve coverage issues.
 - Claim handlers did not follow-up on estimates or total losses that appeared to be delayed because of the estimate review process.

Our examination shows:

- RCW 48.05.190 requires companies to conduct their business in their own legal name. Correspondence from the claims department is generated in two locations, the branch office in Arizona and the Home Office in Wisconsin. Claim handlers issue some letters that are on templates on the computer system. These are printed and sent from Stevens Point, WI, the Home Office. This system is designed to support correspondence for all Sentry companies. The computer system matches the policy number with the Company and identifies it in the signature block. Correspondence that is produced in the Phoenix branch does not automatically identify the company. The Company acknowledges that the correspondence from the branch was been sent on generic Sentry Claim Service letterhead.

Subsequent event: The company has advised they will incorporate the specific company name in the dictation process.

- Loss of use for car rental under the Uninsured Motorist Property Damage coverage was limited by a claim handler to \$15.00 per day. The claim handler led the insured to believe the UMPD coverage was limited in the policy to that amount. There is no specific dollar limit for loss of use in the UMPD coverage. This was referred to the claim supervisor to review with the claim handler as it appeared to be a training issue with the individual claim handler.
- WAC 284-30-340 requires that claim files contain all notes and work papers pertaining to the claim in such detail that pertinent events and dates of the events can be reconstructed. Of the 613 files reviewed 11 files were lacking sufficient documentation. See Appendix 2 for detail.
- WAC 284-30-350 requires the insurer to fully disclose to first party claimants all pertinent benefits and coverage. In 3 files the claim handler did not explain, or there were delays in explaining, Personal Injury Protection benefits upon learning of an injury, or wage loss to a first party claimant. In 1 file the claim handler failed to advise the insured of coverage available for rental reimbursement following the theft of the insured's vehicle. Examiners returned this file for an additional \$200 payment to the insured. See Appendix 2

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- WAC 284-30-360(1) requires the insurer to reply within ten working days to pertinent communications regarding claims. 9 files had letters from insureds, claimants, attorneys, or other insurance companies which were not responded to within the ten-day time frame or to which there had been no response at all from the company. See Appendix 2 for detail.
 - WAC 284-30-330(3) requires the insurer to establish reasonable standards for prompt investigations of claims. 6 files had delays indicating that internal standards were not in place or standards that were in place were not being met. See Appendix 2

- WAC 284-30-370 sets standards for completing investigations within 30 days after notification of claim, unless such investigation cannot reasonably be completed within such time. Unwarranted delays were identified in 6 files. See Appendix 2 for policy detail.
- WAC 284-30-390(1)(a)(b)(c) set forth the standards for establishing the calculations used to settle total loss automobiles and defines how to establish the value of salvage. In some instances NADA values were used. In other cases the company was using figures from evaluations by an independent evaluation company with whom they contracted. This contractor listed vehicles in their evaluation which were not verified as comparable in condition with the insured=s vehicle. 4 files did not meet the requirements of this regulation. See Appendix 2 for detail.

Additionally, the company was settling owner retained total loss claims without allowing the applicable sales tax and transfer fees. Refunds were issued on 91 files, with a total recovery of \$ 29,221.09. Copies of letters and checks to the insureds are contained in the work papers.

Subsequent event: The company has changed procedures for settling first party owner retained total losses to include payment of applicable sales tax and license fees.

- WAC 284-30-390 (8) allows for deductions for betterment and depreciation on parts subject to replacement during the normal life of the vehicle. One file contained deductions for parts arbitrarily set by the appraiser based on the age of the vehicle without verification of the actual mileage or condition, and without discussing it with the insured. See Appendix 2.

INSTRUCTIONS AND RECOMMENDATIONS

1. The company is instructed to establish procedures to ensure policies are not non-renewed because the agent and the company have terminated their relationship, pursuant to the requirements in RCW 48.17.591(1). (page 7)
2. The company is instructed to correct their non-renewal documentation to show only those conditions allowed in RCW 46.52.130 and RCW 48.18.295(2) as a basis for non-renewal. (page 7)
3. The company is instructed to change all written correspondence to indicate the legal name of the company pursuant to the requirements of RCW 48.05.190(1). (page 9)
4. The company is instructed to comply with WAC 284-30-340(1) regarding documentation of dates and pertinent events in all claim files. (page 9)

5. The company is instructed to comply with the requirements of WAC 284-30-350 requiring disclosure to first party claimants all the pertinent benefits and coverages available to them. (page 9)
6. The company is instructed to require claim handlers to respond to all pertinent communications regarding claims within the 10 day time frame established in WAC 284-30-360(1). (page 10)
7. The company is instructed to comply with their own internal standards in order to meet the requirements of WAC 284-30-330(3) and WAC 284-30-370 regarding prompt claim investigation. (page 10)
8. The company is instructed to evaluate total losses according to the methods established in WAC 284-30-390(1)(a)-(1)(b)(ii). The company is further instructed to eliminate the practice of deducting sales tax and transfer fees from owner retained total loss settlements. Salvage values are to be established according to WAC 284-30-390(1)(c). (page 10)

RECOMMENDATION

It is recommended that the company review their appraisal standards and work flow to identify ways of decreasing the time between appraisal or estimate review and settlement.

APPENDIX 1

NON-RENEWALS

Policy Number	Violation	Reason Given
WA 450610340	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450627080	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450634675	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450702222	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.

WA 450757110	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450778088	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450779312	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450789881	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450793741	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450799908	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450706091	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450764265	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450702021	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450605124	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450590014	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450539913	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450450426	RCW 48.17.591 (1)	Agent no longer appointed with Dairyland Ins. Co.
WA 450829290	RCW 46.52.130 RCW 46.18.292	Co. used not at fault accidents and comprehensive losses in its documentation to

		non-renew
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APPENDIX 2

CLAIMS

Violation of WAC or RCW Claim Number	Comment
WAC 284-30-330(3) Claim number	
81A632708	Coverage investigation delayed 2/17-3/18
81A603989	Delay in reassignment Delay in coverage investigation
81A614588	Delay in total loss evaluation 11/20-12/10. 12/2 Complaint by insured about time frame. Claim handler did nothing to expedite claim.
81A462169	Delay in contacting the insured
81A635096	Total loss evaluation delayed. Motorcycle determined to be a total loss 3/12/97. Total loss figures offered 3/25/97. Total loss paperwork not sent timely
81A605988	Delay in denying liability coverage 10/2/96- 12/5/97
WAC 284-30-340 Claim Number	
81A624763	No documentation of status reports
81A632486	No documentation of discussion of deductions by appraiser
81A434681	No documentation on file to indicate claimant agreed to reduced payment for rental, no documentation of

	discussion with body shop.
81A652003	No documentation of phone conversations with other insurance carrier.
81A637662	Coverage verification not documented.
81A434681	Documentation of telephone conversations not on file
81A614466	Documentation of liability decision not on file
81A654635	No documentation of contact with vendor regarding arbitrary reduction of charges. No letter of explanation sent with check.
81A441017	Response to agent inquiry not documented.
81A652003	No documentation of settlement negotiation and agreement with adverse carrier. Check stub reflects what was paid.
81A442498	No documentation of discussion with adverse carrier
WAC 284-30-350(1) Claim Number	
81A655693	No documentation of PIP benefits being explained
81A456602	No documentation of PIP benefits being explained
81A651900	No documentation of PIP benefits being explained
81A618309	Insured not advised of rental reimbursement coverage
WAC 284-30-360 Claim number	
81A44101	No response to claimant 6/22/96 inquiry
81A418167	No response to State Farm letter of 4/15/97

81A618733	No response to fax from agent
81A451770	Response to subrogation demand and documentation did not meet 10 day time frame.
81A663633	No response to 8/29/97 subrogation demand from Allstate
81A442498	No response to subrogation demand
81A388013	No response to claimant 7/5/96 inquiry
81A625237	Insured contact delayed
81A618309	No response to insured=s 12/13/96 letter
WAC 284-30-370(1) Claim Number	
81A451770	Delay in reviewing damage estimate
81A625755	Delay in reviewing damage estimate
81A395802	Unnecessary delays in claim handling, documented by supervisor=s review.
81A625677	Claimant provided estimate, then appraisal was ordered causing delay.
81A636881	Delay in establishing total theft figures within 30 days.
81A627899	Delay of 24 days in appraising total loss of the vehicle
WAC 284-30-390(8) Claim number	
81A618309	Appraiser arbitrarily set depreciation of parts without investigation to document the condition as required.

WAC284-30-390(1)(a)(b)(c)	
81A616338	CCC evaluation not completed in local area. No reason documented
81A630205	CCC evaluation used, dealer quotes not included. No documentation explaining reason for not including dealer quotes.
81A606694	NADA figures used. Does not meet the criteria for evaluation in (1)(a) or (b)
81A617329	CCC dealer quotes used in evaluation. Vehicles had not been verified as required